Risk and other factors

Forward-looking statements

All statements, other than statements of historical fact included in this document, are or may be deemed to be, forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995. Important factors that could cause actual results to differ materially from those discussed in such forward-looking statements include:

- adverse trends in the general economy which may impact negatively on discretionary consumer spending, including unemployment levels, the level of consumers' disposable income, consumer confidence, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation;
- the merchandising, pricing and inventory policies followed by the Group;
- the reputation of the Group and its trading names, together with the success of the Group's marketing and promotional programmes;
- the extent and results of the Group's store expansion and modernisation strategy;
- the availability of suitable real estate;
- the level of competition in the selling of jewellery and the development of new distribution channels in competition with the Group;
- fluctuations in the price and availability of diamonds, gold and other precious and semi-precious metals and stones;
- the seasonality of the Group's business, the risk of disruption during the Christmas trading period, and the availability of inventory during the three months leading up to the Christmas season; and
- financial market risk, including fluctuations in exchange rates between the pound sterling and the US dollar which may affect reported revenues and costs, as well as the amount of the Group's consolidated borrowings, and the cost and availability of borrowings and equity capital.

Impact of general economic conditions

Jewellery purchases are discretionary and may be particularly affected by adverse trends in the general economy and changes in taste by consumers.

The success of the Group's operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, such as economic conditions and perceptions of such conditions by consumers, which may affect disposable consumer income. These include employment, the level of consumers' total income, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation for the economy as a whole and in regional and local markets where the Group operates. There can be no assurance that consumer spending on jewellery will not be adversely affected by changes in general economic conditions. However, due to the limited seasonality in the product mix the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors.

In addition, because a substantial proportion of the Group's US sales are made on credit, any significant deterioration in general economic conditions or consumer debt levels may inhibit consumers' use of credit and cause a material adverse effect on the Group's revenues and profitability. Furthermore, the Group expects that any downturn in general or local economic conditions in the markets in which it operates may adversely affect its collection of outstanding credit accounts receivable. Currently there are all-time high levels of consumer debt in the US. The Group's level of net bad debt charge as a percentage of credit sales in 2001/02 was in line with that of the last five years.

Merchandise selection, pricing and inventory

The Group depends on consumer fashions, preferences for jewellery in general and the demand for particular products. Design trends in jewellery normally only change over relatively long periods and there is little seasonality in the merchandise mix. The ability to predict accurately future changes in taste, respond to changes in consumer preferences, carry the inventory demanded by customers, deliver the appropriate quality and to price products correctly, are important in determining the level of sales and inventory provisions (see pages 12 and 18 for more details).

Market research and the Group's operating experience suggest that while the price of jewellery is a consideration for consumers it is not among the top three factors in determining where they buy jewellery. The Group believes these factors to be the level of service provided to the customer, the quality of the product and the selection of merchandise offered. Therefore discounting price, while it may increase sales, usually does not increase profit. As a result the Group believes there is an above average level of pricing integrity within the speciality jewellery sector compared with retailing in general.

Reputation, marketing and customer service
Primary factors in determining customer buying decisions in the jewellery sector include customer confidence in the retailer and the merchandise sold, together with the level and quality of customer service. The Group carries out quality control and staff training procedures and provides customer service facilities to help protect its reputation. Similarly the Group's reputation in the financial markets can influence the availability of capital, the cost of capital and the share price.

The Group's social, ethical and environmental policies can also influence the demand for merchandise by consumers. The Group's share price and access to capital may also be influenced by these policies. The growth in society's concern with social, ethical and environmental matters and the greater emphasis on Socially Responsible Investment has increased the risks associated with these issues. Using outside consultants, the Group has continued to carry out benchmarking and a risk assessment of its policies, procedures and controls with regard to social, ethical and environmental matters (see pages 92 to 94 and *www.signetgroupplc.com* for more details).

In speciality jewellery retailing the level and quality of customer service is determined by the effectiveness of recruitment, training and retention of suitably qualified staff and this will help determine sales and profitability. The Group has in place comprehensive recruitment, training and incentive programmes (see pages 11 and 17 for more details).

The ability to differentiate the Group's stores from competitors by its branding, marketing and advertising programmes is a factor in attracting consumers. Therefore these programmes are carefully tested and their success monitored by methods such as market research (see pages 13 and 18 for more details).

Store property
The Group's results are dependent on a number of factors relating to its stores. These include the availability of property, location, the terms of leases agreed with landlords and the design and maintenance of the stores. In addition, the Group's operations, particularly in the US, are dependent upon the continued popularity of malls as a shopping destination and the ability of malls, their tenants and other mall features to attract customers (see pages 9 and 16 for more details).

Competition
Competitive factors in the jewellery sector are discussed in the US and UK Operating reviews (see pages 7 to 20). If the Group falls behind competitors with respect to one or more of these factors, the Group's results of operations or financial condition could be adversely affected. In the US the Group has an estimated 7% market share of the speciality jewellery sector and has only one national competitor. While another major national brand could develop, the sector is highly fragmented. In the UK the Group has an estimated 17% share of the total jewellery sector and has only limited scope to increase sales by opening new stores.

The channels through which consumers buy jewellery continually evolve and a major non-speciality retailer could enter the wider jewellery market. In the US, for example, sales by discount retailers have increased, while those of the department stores have been in relative decline and catalogue retailers have withdrawn from the market. In the UK a number of fashion and general retailers, including a major supermarket chain, have introduced, or have announced plans to introduce, jewellery into their ranges whilst others have reduced their selection.

Supply
During 2001/02 the Group did not have a single supplier which accounted for more than 7% of its merchandise. Although the Group believes that alternative sources of supply are available, the abrupt loss of any significant supplier during the three month period leading up to the Christmas season could result in a material adverse effect on the Group's business.

The jewellery industry generally is affected by fluctuations in the price and supply of diamonds, gold and, to a lesser extent, other precious and semi-precious metals and stones. The Group undertakes limited hedging of its requirement for gold through the use of options, forward contracts and outright commodity purchasing. It does not hedge against fluctuations in the cost of diamonds. The cost of raw materials is only part of the costs involved in the retail selling price of jewellery with labour costs also being a significant factor.

Diamonds are the largest product category sold by the Group. The supply and price of diamonds in the principal world markets are significantly influenced by a single entity, the Diamond Trading Company ("DTC"), a subsidiary of De Beers Consolidated Mines Limited ("De Beers"). The DTC (and its predecessor, the Central Selling Organisation) has traditionally controlled the marketing of a substantial majority of the world's supply of rough diamonds and sells diamonds to diamond cutters in quantities and at prices determined at its sole discretion. In 2000 De Beers announced a change in corporate strategy, and in 2001 there was a change in control of De Beers. To date these changes have not had any material impact on the availability and pricing of, and demand for, diamonds, but may do so in the future.

The availability of diamonds to the DTC and the Group's suppliers is to some extent dependent on the political situation in diamond producing countries. Until alternative sources can be developed, any sustained interruption in the supply of diamonds from the significant producing countries could adversely affect the Group and the retail jewellery industry as a whole.

Consumer confidence in diamonds, gold and other metals and gemstones influences the level of Group sales. Confidence could be affected by a variety of issues including the availability of substitute products such as cubic zirconia and the development of synthetic diamonds; labour conditions in the supply chain; and concern over the source of other raw materials. The Group has therefore introduced a Supplier Code of Conduct which sets out the Group's expectations of its suppliers. An example of an issue that could affect confidence in this way is that of "conflict diamonds", which is the term used for diamonds being sold by rebel movements to raise funds for military campaigns. There have been a number of United Nations resolutions regarding conflict diamonds and an international treaty is also being considered. Legislation has also been proposed, in certain jurisdictions, which would prohibit the trade in rough diamonds from those regions controlled by rebels. The final nature and impact of these treaties or legislation is not known and further treaties may be agreed and legislation proposed in other jurisdictions. See page 92 for further information on the Supplier Code of Conduct and the Group's policy on "conflict diamonds".

Seasonality

The Group's business is highly seasonal, with a very significant proportion of its sales and operating profit generated during its fourth quarter, which includes the Christmas season. The Group expects to continue to experience a seasonal fluctuation in its sales and profit. Therefore the Group has limited ability to compensate for shortfalls in fourth quarter sales or earnings by changes in its operations and strategies in other quarters, or to recover from any extensive disruption due to inclement weather conditions. A significant shortfall in results for the fourth quarter of any financial year would thus be expected to have a material adverse effect on the Group's annual results of operations. However due to the limited seasonality in the product mix, the risk of having to discount inventory in order to be correctly stocked for the next selling season is more limited than for some other retail sectors.

Effect of currency fluctuations

The Group publishes its consolidated accounts in pounds sterling. The Group held approximately 72% of its total assets in US dollars at 2 February 2002 and generated approximately 71% of its net sales and 72% of its operating profit in US dollars for the financial year then ended. Thus, even though the Group's US operations make substantially all of their net sales and incur substantially all of their expenses in US dollars, in translating the results of its US operations the Group is

Exchange rates between £ sterling and the US dollar

Calendar year	Average (1)	High	Low	At period end
1997	1.64	1.69	1.58	1.64
1998	1.66	1.72	1.61	1.67
1999	1.62	1.68	1.55	1.62
2000	1.51	1.65	1.40	1.50
2001	1.44	1.50	1.38	1.45
2002 (up to 10 April)	1.43	1.45	1.41	1.44

(1) The average of the exchange rates on the last day of each full month during the period.

subject to fluctuations in the exchange rate between the pound sterling and the US dollar. Accordingly, depreciation in the weighted average value of the US dollar against the pound sterling could decrease reported revenues and operating profit (as was the case in 1996/97, 1997/98 and 1998/99), and appreciation in the weighted average value of the US dollar against the pound sterling could increase reported revenues and operating profit (as was the case in 1999/00, 2000/01 and 2001/02). The Board has chosen not to hedge the translation effect of exchange rate movements on the results of the Group where there is no movement of cash.

As part of its long-term strategy, the Group seeks to finance its US net assets with borrowings denominated in US dollars as a hedge against the impact of exchange rate fluctuations on its US operating profit. Currently nearly all of the Group's borrowings are denominated in US dollars. However, fluctuations in the exchange rate between the pound sterling and the US dollar affect the amount of the Group's consolidated borrowings. In addition the prices of materials and certain products bought on the international markets by the UK division are denominated in US dollars, and therefore the Group has an exposure to exchange rates on the cost of goods sold which will have an opposite effect to its exposure on US operating profit. The Group does use hedging operations in respect of purchases of US dollars by its UK operating division, within the treasury guidelines approved by the Group's Board.

Cash dividends paid by the Group in respect of the ordinary shares will be in pounds sterling and fluctuations in the exchange rate between the pound sterling and the US dollar will affect the dollar amount received by holders of ADSs upon conversion of such dividends. Moreover, fluctuations in the exchange rate between the pound sterling and the US dollar will affect the US dollar equivalents of the pound sterling price of the ordinary shares on the London Stock Exchange and, as a result, are likely to affect the market price of the ADSs in the US.

The table on the previous page sets out, for the calendar years indicated, the average, high, low and period end exchange rates for the pound sterling expressed in US dollars per £1.00.

The Euro

The Republic of Ireland, in which the Group operates 13 stores, was one of the first 11 countries which joined the European Monetary Union ("EMU"). It is not certain if, or when, the UK will join. The Group set up an EMU Committee to oversee the preparations for EMU. The Group's stores in the Republic of Ireland started accepting the Euro on 1 January 2002 and no significant costs were incurred.

Financial market risk

The Group's policy is to manage financial risk resulting from exposure to currency and interest rate fluctuations. Translation exposure relating to non-sterling denominated assets in the US is partially hedged by borrowing in US dollars. Interest rate exposure is managed through the use of fixed rate swaps, caps and floors.

A committee of the Board is responsible for the implementation of treasury policies and guidelines which are considered to be appropriate by the Board for the management of financial risk. The Group's funding, liquidity and exposure to interest rate and exchange rate risks are managed by the Group's treasury department. The Group uses derivative instruments for risk management purposes only, and these are transacted by specialist treasury personnel.

Fair value changes arising from:

	Estimated fair value at 2 February 2002	1% decrease in interest rates (unfavourable)	10% weakening in £ against $ favourable/ (unfavourable)	Estimated fair value at 27 January 2001
	£m	£m	£m	£m
Borrowings	(268.1)	(10.4)	(28.7)	(266.6)
Foreign currency receivables	327.0	–	36.3	314.7
Foreign exchange contracts	–	–	0.7	–

For financial instruments held, the Group has used a sensitivity analysis technique that measures the change in the fair value of the Group's financial instruments from hypothetical changes in market rates and this is shown in the table on page 31.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to changes in the portfolio of financial instruments held and actual developments in the global financial markets. These may cause fluctuations in interest and exchange rates to exceed the hypothetical amounts disclosed in the table on page 31. The analysis method used by the Group to assess and mitigate risk discussed below should not be considered a projection of likely future events and losses.

The estimated changes in the fair values of borrowings and associated derivative financial instruments at 2 February 2002 are set out in the table on page 31. The fair values of borrowings and derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the period end.

The estimated changes in fair values for interest rate movements are based on an instantaneous decrease of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 2 February 2002 with all other variables remaining constant. The estimated changes in the fair value for foreign exchange rates are based on an instantaneous 10% weakening of the pound sterling against the US dollar from the levels applicable at 2 February 2002 with all other variables remaining constant.